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Czech Republic

HRI Food Service Sector

VAT Increases for HRI Sector

2004

Approved by:

Sarah Hanson
U.S. Embassy

Prepared by:

Petra Choteborska

Report Highlights:

The Czech Republic will increase the value-added tax (VAT) in the hotel, restaurant, and institutional (HRI) sector from 5% to 22% on May 1, 2004, the day of EU accession. Prices of restaurant food and drinks are expected to rise by 10-12%. There will be an opportunity for U.S. frozen food products as consumers are expected to eat out less and buy more frozen convenience meals.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Vienna [AU1]
[EZ]

The Czech Republic (CR) will increase the value-added tax (VAT) in the hotel, restaurant, and institutional (HRI) sector from 5% to 22% on May 1, 2004, the day of EU accession. During negotiations over transitional periods in 2001, the Czech Republic did not negotiate a lower level of VAT for the HRI sector (unlike Hungary and Poland). Restaurants and international chains have requested that officials negotiate a transitional period after accession. It is expected that 15 to 20% of the restaurants currently operating (especially lower end ones) will go bankrupt when the new VAT goes into affect. The HRI sector employs 120,000 people with an annual turnover is US \$3.5 billion.

The Czech Republic applied a 22 percent VAT in HRI sector until 2000 when the VAT was decreased to 5 percent. This measure decreased prices (e.g McDonald's) and improved quality and hygienic standards in many restaurants. The higher quality and better prices resulted in 10 percent yearly growth for this sector since 2001.

Prices of restaurant food and drinks are expected to rise by 10-12% after the VAT adoption. However, competition should prevent further price increases. Prices of U.S. products will be more expensive. However, there will be an opportunity for U.S. frozen food products as consumers are expected to eat out less and buy more frozen convenience meals in supermarkets.